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PENNSYLVANIA BUSINESS SURVEY

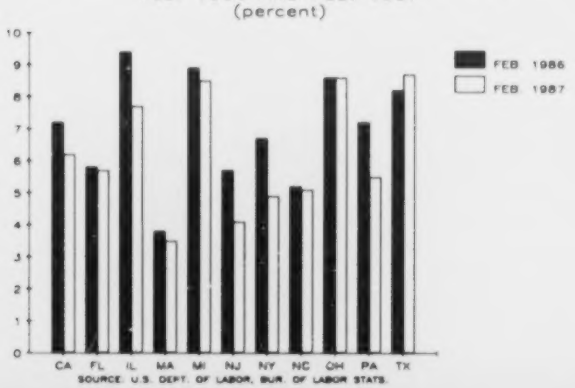
College of Business Administration The Pennsylvania State University April 1987

CAUTION REQUIRED IN READING ECONOMY'S HEALTH

Data for the month of February illustrate once again that caution must be exercised in interpreting changes in the unemployment rate. **On the surface, the decline in the jobless rate from 6.1 percent in January to 5.5 percent in February after adjustment for normal seasonal variations, points to a strong economic performance. However, a closer examination of the underlying factors which influence the rate suggests that this outlook may be a bit too optimistic.**

The unemployment rate is calculated by simply dividing the number of unemployed by the labor force. Hence, an analysis of the behavior of these variables, and the related behavior of the number of Pennsylvanians counted as employed, is required to correctly interpret changes in the jobless rate. The number of residents officially listed as without a job did fall in February, by 31,000 to 305,000, seasonally adjusted, as estimated by Penn State's Center for Regional Business Analysis. The U.S. Bureau of Labor Statistics estimated that the decline was 37,000, leaving the number of unemployed at 306,000. (These minor differences in estimates are partly the result of slight differences in seasonal adjustment procedures.) At the same time, the labor force fell by about 45,000 to a total of 5.6 million. Regardless of the estimates used, those of the Center or those of BLS, the decline in the labor force exceeded the decline in unemployment. Hence, this translates into a drop in employment. The Center for Regional Business Analysis estimates that employment fell by 15,000 to 5.25 million, while the BLS puts the decline at 12,000, leaving employment at 5.26 million. Therefore, **February's decline in the unemployment rate is not necessarily a sign of an especially healthy economy.** Keep in mind that there are error ranges associated with these estimates. Still, it is fairly safe to assume that employment, at best, held fairly steady in February.

UNEMPLOYMENT RATES FOR 11 LARGE STATES, FEB. 1986 AND FEB. 1987
(percent)



As shown in the accompanying chart, Pennsylvania's unemployment rate has declined considerably over the past year. Last February, the Commonwealth maintained a 7.2 percent jobless rate. At that time, five of the 11 large states for which similar data are available had lower rates and one, California, had an identical one. This past February, just four states had lower readings. But again, caution in interpreting the decline should be exercised. Over the twelve-month period, employment was up 0.4 percent in Pennsylvania. Nationally, the growth rate was 2.6 percent. At the same time, Pennsylvania's labor force actually fell 1.5 percent compared to a 1.9 percent gain in the U.S. However, there was a startling 23 percent drop in the number of unemployed in the Commonwealth. Again, it appears that a first glance at the behavior of the unemployment rate leads to some overly-optimistic conclusions.

Hence, despite the fairly solid downward trend in unemployment as of late, **there appear to be no signals to suggest that the economy is growing at anything more than a moderate pace. At the same time, strength in the economy's growth industries, most notably in the service-producing area, should be enough to avoid any significant downturn in the near future.** In that the Pennsylvania index of leading indicators, which declined only slightly in February, continued holding fairly steady in a narrow range as it has for the last several months, a continuation of recent trends seems likely. Recent behavior in one component of the index, initial claims for unemployment insurance, has predicted quite well the decline in the number of residents counted as unemployed (see chart). The number of claims tends to increase before a rise in the number of residents counted as unemployed and to decrease before a fall in unemployment.

For once, there was a sizeable increase in the number of jobs in Pennsylvania's manufacturing establishments in February. Normally, about 700 jobs are lost in February strictly for seasonal reasons. In fact, February is one of the slowest months of the year for the Commonwealth's manufacturers. This past February, however, 3,400 positions were added, resulting in a seasonally adjusted gain of 4,100. The 1,038,600 manufacturing positions after adjustment for normal seasonal variations is the highest number since September 1986.

Unfortunately, the major portion of these additions are not newly created jobs. Instead, they are attributable to the return of the USX workers. Still, **job losses in manufacturing do not appear to be as severe as in the recent past.** In the February issue of the *Survey*, our forecast was for continued job losses in manufacturing, though not as severe as in 1986. Indeed, that forecast has held at least through the first two months of the year. Job losses so far in 1987 have amounted to 2.8 percent compared to a year ago versus 3.7 percent for all of last year. Furthermore, during the first two months of 1986, job losses occurred at a 4 percent annual clip.

As USX resumed production, there was a slight gain in steel output in Pennsylvania. Average daily steel production rose from 20,000 tons to 20,200 tons after seasonal adjustment. Furthermore, total tonnage rose from 598,000 tons in January to 638,000 tons in February. However, care should be exercised in drawing any definite conclusions from the increase in that the total tonnage data is not adjusted for seasonality. **The end of the USX strike will probably distort the data, for both jobs and production, for the next few months.**

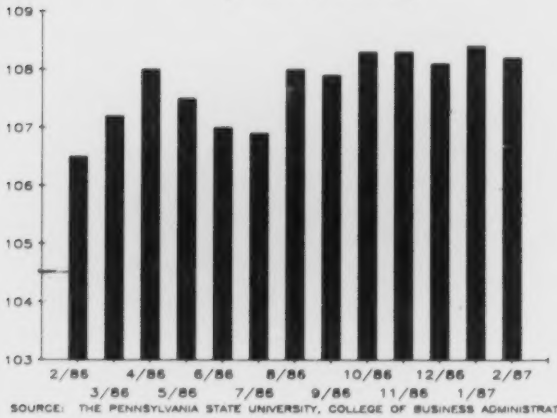
Other indicators, however, point to continued sluggishness in manufacturing. The average workweek held steady at 40.8 hours, seasonally adjusted. Total hours worked rose only slightly, as did the value of weekly payrolls. Additionally, electricity sales to industry, a fairly reliable barometer of industrial activity, fell slightly in February. Hence, **despite the increase in job levels during the month, there is definite-**

Economic Activity in Pennsylvania	UNADJUSTED DATA			SEASONALLY ADJUSTED DATA			SEASONALLY ADJUSTED INDEXES (1977 = 100)		
	1987		1986	1987		1986	1987		1986
	Jan.	*Feb.*	*Feb.*	*Jan.*	*Feb.*	*Feb.*	*Jan.*	*Feb.*	*Feb.*
Pennsylvania Industries									
All nonagricultural industries									
No. of wage and salary jobs (thous.)[1]	4,759*	4,759	4,674	4,841*	4,850	4,766	106.0*	106.2	104.4
Nonmanufacturing									
No. of wage and salary jobs (thous.)	3,725*	3,728	3,618	3,807*	3,811	3,701	118.1*	118.2	114.8
Mining	31	31	34	33	33	36	68.7*	68.7	74.4
Contract construction	182	175	160	209	205	190	113.7	111.3	103.3
Transportation	136*	136	136	138*	138	138	86.0*	85.9	86.0
Public Utilities	103*	104	101	103*	104	102	102.5*	103.5	101.0
Wholesale trade	263	264	254	265	267	258	119.6*	120.6	116.2
Retail trade	834*	823	798	848	851	826	118.2*	118.7	115.2
Finance, insurance & real estate	281*	281	268	284*	285	272	130.4*	130.8	124.9
Service & miscellaneous	1,223*	1,231	1,180	1,246*	1,248	1,197	144.4*	144.7	138.7
Federal government	137*	138	140	138*	139	140	108.0*	108.3	109.4
State & local government	535*	546	548	542*	540	542	92.9*	92.6	92.9
Manufacturing									
No. of wage and salary jobs (thous.)	1,025*	1,028	1,054	1,035*	1,039	1,064	77.1*	77.4	79.3
Durable goods	578*	581	602	584*	587	609	72.1*	72.5	75.2
Nondurable goods	447*	448	452	451*	451	455	84.7*	84.8	85.5
Ave. wkly. hrs. worked by prod. workers	40.6	40.6	39.5	40.8	40.8	39.7	103.2	103.2	100.4
Total wkly. person-hours worked (mils.)	28.0	28.1	28.2	28.5	28.6	28.7	74.2	74.5	74.8
Total wkly. payroll (mil. dols.)	275.3	277.2	274.5	279.7	281.0	278.2	124.5	125.1	123.8
Steel production (thous. tons)	598	638	994	n.a.	n.a.	n.a.	28.4	28.8	45.0
Industrial electric power sales (mil. kwh)	3,364	3,412	3,515	3,419	3,356	3,462	92.6	90.9	93.7
Mining									
Anthracite coal (thous. net tons)	327	337	243	380	422	303	77.7	86.4	62.1
Bituminous coal (thous. net tons)	4,301	n.a.	5,014†	4,840	n.a.	5,461†	68.6	n.a.	77.4†
Construction contracts awarded (mil. dols.)									
Total	480.7	488.4	510.9*	765.4	808.1	838.1*	237.9	251.2	260.5*
Residential building	180.2	173.8	162.9*	385.5	336.6	319.8*	273.9	239.2	227.2*
Nonresidential building	200.5	149.6	161.6*	251.2	247.1	268.6*	231.6	227.7	247.6*
Nonbuilding (utilities and public works)	100.0	165.0	186.3*	128.7	224.4	249.7*	177.5	309.6	344.4*
Employment of Pennsylvania Residents									
Employed, no. of persons (thous.)	5,131	5,078	5,059	5,264	5,249	5,232	109.5	109.2	108.9
Unemployed									
No. of persons (thous.)	359	349	453	336	305	407	83.9	76.1	101.6
Rate (percentage of labor force)	6.5	6.4	8.2						
Rate, seasonally adjusted				6.1	5.5	7.2			
Civilian labor force, no. of persons (thous.)	5,490	5,427	5,512	5,600	5,555	5,639	107.6	106.7	108.3
Initial claims for unemployment benefits	162,578	91,710	105,731	103,997	105,643	121,444	72.6	73.8	84.8

Consumer Prices, all items	Urban Indexes (1967 = 100)			Percentage Change	
	1986-87		1986	*Month Ago*	*Year Ago*
	Jan.	*Feb.*	*Feb.*		
U.S. city average	333.1	334.4	327.5	+0.4	+2.1
Philadelphia	327.7	329.0	320.1	+0.4	+2.8
Pittsburgh	n.a.	335.2	330.1	n.a.	+1.5

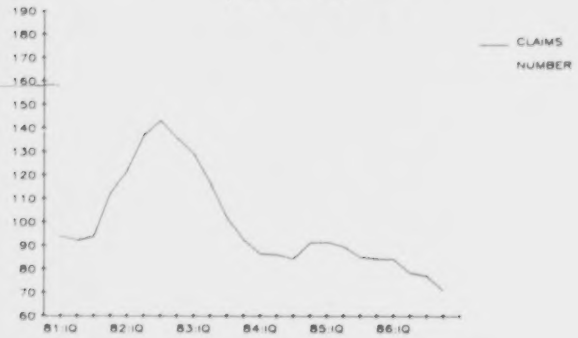
[1] Total includes workers on strike. * = figure revised † = figure for January 1986 n.a. = data not available
SOURCES AND DEFINITIONS OF DATA ARE AVAILABLE ON REQUEST.

PENNSYLVANIA COMPOSITE INDEX
OF LEADING INDICATORS
(Jan 1972=100)



SOURCE: THE PENNSYLVANIA STATE UNIVERSITY, COLLEGE OF BUSINESS ADMINISTRATION

INITIAL CLAIMS FOR FOR UNEMPLOYMENT INSURANCE
IN PA AND THE NUMBER OF UNEMPLOYED
(1977=100)



SOURCE: THE PENNSYLVANIA STATE UNIVERSITY, COLLEGE OF BUSINESS ADMINISTRATION

ly a lack of strength being generated by the Commonwealth's manufacturers.

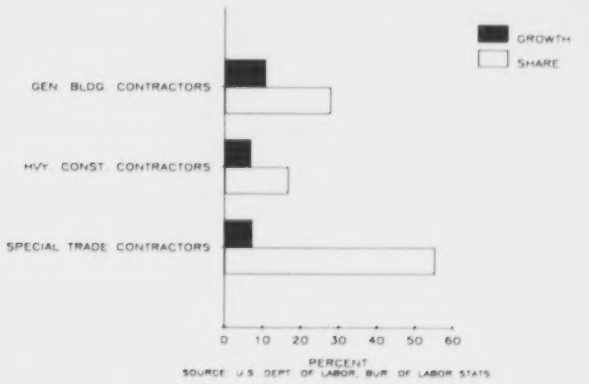
Despite a slight dip in job levels during February, **most indicators suggest that construction activity remains quite healthy in the Commonwealth.** A strong surge in nonbuilding contract awards pushed up the value of total construction contracts awarded for the month to $808.1 million, seasonally adjusted, up 5.6 percent from January. **Recent gains in the nonbuilding area, which includes such items as utilities and public works, are quite welcome given the importance of these projects in revitalizing Pennsylvania's economy.** A sound infrastructure network is a good drawing card for prospective businesses. Contract values in this category have increased in each of the past three years, including a solid 25 percent jump in 1986. Unfortunately, despite February's rise, nonbuilding contract values so far this year are down almost one-fifth from the first two months of 1986.

Recent behavior in construction employment tends to suggest that construction activity peaked during last year's second half. In fact, after topping a seasonally adjusted 210,000 for only the second time on record last December, the number of construction jobs has declined in each of the past two months. Still, the 204,700 workers in this industry after adjustment for normal seasonal variations is quite high in historical terms. **Construction employment stood 9.1 percent higher in February compared to a year ago.**

The accompanying chart provides a very brief overview of Pennsylvania's construction industry. More than one-half of all jobs are accounted for by special trade contractors. General building contractors employ about 30 percent, with heavy construction contractors accounting for the remainder of all jobs. Furthermore, at least in 1986, job gains were fairly evenly distributed across all three categories.

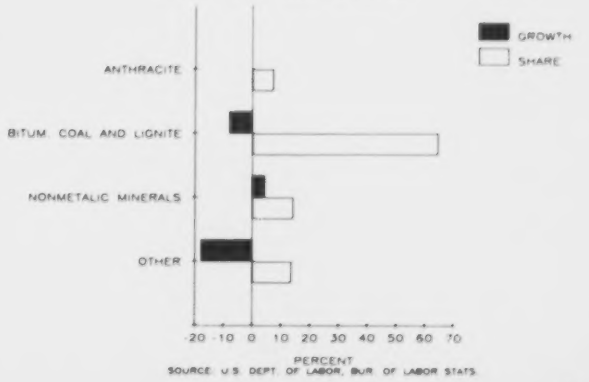
Problems in Pennsylvania's mining industry, especially in coal mining, are well-documented. Job levels have sunk to all-time lows as a variety of structural changes have brought severe hardships to the industry and its workforce. The bituminous coal industry is dominant in terms of job shares (see chart), accounting for about two-thirds of all mining jobs. Other industries, such as nonmetalic minerals (approximately 15 percent) and anthracite coal (less than 10 percent), are quite small in comparison.

CONSTRUCTION INDUSTRIES IN PA: 1985-1986
JOB GROWTH AND 1986 JOB SHARES



SOURCE: U.S. DEPT. OF LABOR, BUR. OF LABOR STATS.

MINING INDUSTRIES IN PA: 1985-1986 JOB GROWTH
AND 1986 JOB SHARES



SOURCE: U.S. DEPT. OF LABOR, BUR. OF LABOR STATS.

Elsewhere, however, a good deal of strength can be found in the service-producing industries. Job gains were recorded in each of the private-sector service-producing industries as well as in the federal government in February. **Record high job levels were recorded in the retail trade, wholesale trade, finance-related, and services industries.**

As a result of the strength coming from these industries, total nonmanufacturing job levels rose again in February to a seasonally adjusted 3.81 million workers. All told, there were 4,400 more workers in Pennsylvania's nonmanufacturing establishments in February compared to January. Nonmanufacturing job levels have been rising practically nonstop since 1983 with a new record being set almost monthly.

The future health of the Pennsylvania economy is heavily dependent upon trends in the national economy. **Given the rather lackluster economic performance in the U.S. as a whole, it is quite unlikely that activity in the Commonwealth will suddenly accelerate.** However, most analysts expect that improvements on the foreign trade front will offset problems in other areas, such as with capital spending and a possible retrenchment on the part of consumers. Hence, just as with Pennsylvania, the national economy will continue to expand in the near-term, but the rate of growth will be considerably less than robust.

— *William D. Anderson*

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